

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 CIAE-00 INR-07 /021 W

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R 071515Z JUN 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3531

C O N F I D E N T I A L SANTIAGO 3771

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: CAPITAL FLOW (C-ER-5-59112)

REF: A) STATE 130112; B) SANTIAGO 3345; C) SANTIAGO A-93

1. EMBASSY ASSESSMENT OF CHILEAN POSSIBILITIES FOR CLOSING BOP GAP CONTAINED IN REF (C). IN THAT ASSESSMENT WE SEE IMPORTS DROPPING SHARPLY UNDER IMPACT OF RECENTLY ADOPTED ECONOMIC RECOVERY PROGRAM. SOME GOC OFFICIALS NOW ESTIMATE THAT GOVERNMENT PURCHASES FROM ABROAD ALONE WILL FALL BY AS MUCH AS 80 MILLION DOLLARS IN 1975. IMPACT OF PROGRAM ON ECONOMIC ACTIVITY (SOME LOCAL OBSERVERS SEE MANUFACTURING AND CONSTRUCTION OFF BY TEN PERCENT OR MORE FOR THE YEAR) SHOULD MEAN LARGE INDIRECT SAVINGS ON IMPORTS.

2. DESPITE ABOVE CONSIDERATIONS, JUST COMPLETED CENTRAL BANK (CB) BOP PROJECTIONS FOR 1975 IN MILLIONS OF DOLLARS AS FOLLOWS:

A) EXPORTS GOODS AND SERVICES #	1,805.5
B) IMPORTS GOODS AND SERVICES	-2,354.3
C) EXPORTS NON-MONETARY GOLD	16.0
D) TRADE BALANCE	-532.8
E) FINANCIAL SERVICES AND DONATIONS FROM ABROAD	20.00
F) FINANCIAL PAYMENTS ABROAD	-284.8
G) CURRENT ACCOUNT BALANCE	-797.6
H) AMORTIZATION LONG TERM DEBT	-504.0
I) EXTERNAL CREDITS:	707.0
I) DEBT RENEGOTIATION (260.0)	

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II) CAPITAL GOODS FINANCING (309.4)

III) PL-480 (51.6)

IV) OTHER-CREDITS ## (36.0)

V) FOREIGN INVESTMENT (50.0)

J) BALANCE OF PAYEMENTS -594.6

# BASED ON AVERAGE LME COPPER PRICE OF 62 CENTS A POUND.

##INCLUDES 25 MILLION AID HOUSING GUARANTEE.

3. THIS CB DEFICIT PROJECTION IS ABOUT \$100 MILLION GREATER THAN ESTIMATE MADE BY CAUAS IN HIS REMARKS TO US REPORTED REFTEL (B). LATEST CB IMPORT PROJECTION, WHICH IS ONLY \$10 MILLION LOWER THAN PROJECTION PRESENTED AT FEBRUARY CEPICIES MEETING, APPEARS TO IGNORE EFFECTS OF ECONOMIC RECOVERY PROGRAM WHICH, AS WE SAID, IS EXPECTED TO EXCERPT POWERFUL SQUEEZE ON IMPORTS.

4. IN LUNCHEON HOSTED BY AMBASSADOR JUNE 5, FINANCE MINISTER CAUAS ADDRESSED ISSUE OF BOP GAP. CAUAS INDICATED THAT HE EXPECTED IMF OIL FACILITY, MEDIUM TERM AND SHORT-TERM BANK LOANS TO COVER GAP. BELOW ARE OUR ESTIMATES OF MAXIMUM PROBABLE AMOUNTS OF TYPE FINANCING MENTIONED BY CAUAS PLUS DRAWING ON IMF STANDBY NOT INCLUDED IN CB PROJECTION. IT IS TO BE NOTED THAT THIS TOTALS \$42 MILLION LESS THAN \$500 MILLION GAP MENTIONED BY CAUAS IN REF B AND \$136.6 LESS THAN GAP INDICATED IN CB PROJECTION.

A) IMF STANDBY (ALREADY DRAWN) 24.0

B) IMF OIL FACILITY 184.0

C) MEDIUM TERM BANK LOAN 150.0

D) NEW BANKING LINES OF CREDIT 100.0

5. CAUAS INDICATED THAT GOC CANNOT BE CERTAIN ABOUT REMAINDER 1975 IMF STANDBY SINCE BOP TARGETS IN GOC LETTER OF INTENT ARE NOT BEING MET. ASSUMING REMAINDER OF IMF STANDBY NOT YET DRAWN WILL BE MADE AVAILABLE (AND LOCAL IMF REP BELIEVES IT WILL BE, PROVIDED GOC ADHERES TO ECONOMIC RECOVERY PROGRAM) AND OTHER FINANCING MENTIONED BY CAUAS MATERIALIZES, BOP GAP UNDER CB PROJECTION WOULD CONTRACT TO ABOUT \$65- MILLION. OUR JUDGMENT IS THAT IMPORTS LIKELY TO FALL BELOW CENTRAL BANK PROJECTIONS BY AT LEAST THIS AMOUNT IN ABSENCE OF SUBSTANTIAL IMPROVEMENT IN CHILE'S EXPORT EARNINGS.  
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6. WITH RESPECT \$150 MILLION FIVE YEAR LOAN FROM CONSORTIUM NY BANKS, CAUAS INDICATED THAT THERE STILL SOME PROBLEMS, MENTIONING SPECIFICALLY GUARANTEES AND INTEREST RATE. NEGOTIATIONS FOR NEW LINES OF CREDIT, HE SAID, WERE IN MORE ADVANCED STAGE. CAUAS IS OBVIOUSLY OPTIMISTIC THAT BOTH SOURCES OF FINANCING WILL MATERIALIZE. NATURALLY IF THESE LOANS DO NOT DEVELOP ON HOPED-FOR SCALE, CHILE WILL FACE

BOP CRUNCH THAT WILL REQUIRE ADDITIONAL LARGE REDUCTION IN IMPORTS. CHILE PROBABLY WOULD ALSO HAVE TO RENEGOTIATE COMPENSATION AGREEMENTS (PAYMENTS OF \$88.5 MILLION DUE IN 1975) WITH US COMPANIES.

7. CAUAS REITERATED GOC DETERMINATION TO RESIST IMPOSITION OF QUANTITATIVE IMPORTS CONTROLS FOR BOP PURPOSES AND STRONG INTENTION OF USING BUDGETARY, MONETARY AND EXCHANGE RATE POLICY TO RESTRICT IMPORTS. IN THIS CONNECTION, DOLLAR VALUE OF CHILEAN IMPORT REGISTRATIONS WAS DOWN 31 PERCENT DURING FIRST FOUR MONTHS FROM SAME PERIOD 1974, WHILE ESCUDO WAS DEPRECIATING IN REAL TERMS AGAINST DOLLAR IN AMOUNT OF 34 PERCENT. GIVEN 120-DAY REQUIRED LEAD-TIME FOR IMPORT REGISTRATIONS, THIS IS A GOOD INDICATION THAT PRIVATE SECTOR IMPORTS WILL BE STRONGLY DOWN IN SECOND HALF CALENDER 1975.  
POPPER

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## Message Attributes

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